8 October 2018

Standard & Poor's Index Versus Active (SPIVA)
Australian Scorecard to June 2018

S&P Dow Jones Indices recently released their SPIVA Australian Scorecard[1] covering manager vs index performance to June 2018.

The results of the analysis, unsurprisingly, found that, with the exception of Small-Cap equities, the average Australian actively managed fund underperformed comparable market indexes over the 1-year and longer periods. (i.e. More than 50% of active funds underperformed the index.)

Unfortunately, **the S&P SPIVA analysis is not comparable to, and is therefore irrelevant for, Institutional Superannuation Funds**.

If we take Australian Equities as an example (General or Large-Cap style) there **are three key problems** with the analysis:

1. **Managers:** The SPIVA analysis is based on over 300 actively managed funds defined by Morningstar as being Large-Cap. It is not disclosed how many Managers actually manage these 300 funds.

   From an institutional perspective there are probably less than 1/3rd that number of large-cap managers / strategies that would even be considered as potential investments.

2. **Equal vs Asset Weightings:** While S&P Dow Jones Indices does publish some asset-weighted results in the SPIVA, the tables of results, which are the sources of the outperformance comparisons over 1, 3, 5, 10 and 15 years showing that *x*% of funds underperform the benchmark, appear to be based on equal-weighted returns.

   Notably, in the tables in the SPIVA Report which give both equal and asset-weighted return levels, the asset-weighted active funds outperform the equal-weighted funds by 30-50 basis points per annum. This suggests that either:

   - Larger investors are able to select better performing actively managed funds; and/or
   - Larger actively managed funds have lower fee levels

   In either case the asset-weighted funds would have had better performance relative to the index over time if these figures had been used for the outperformance comparisons.

3. **Retail Fees:** The SPIVA analysis is based on fund performance provided by Morningstar, which are after-fee returns. Given the large number of funds (over 300) many would have retail fee levels. Moreover, even those 'wholesale' funds included would have fee levels significantly greater than those paid by institutional Superannuation Funds investing through mandates.

[1] https://us.spindices.com/documents/spiva/spiva-australia-mid-year-2018.pdf

The charts in the SPIVA analysis which show cumulative (growth of a dollar) performance versus the benchmark, show clear outperformance by the asset-weighted funds over the equal-weighted across essentially all periods, and for all asset classes (with the notable exception of small-cap funds). This indicates that, as would be expected, larger investors select better performing investments.

If the SPIVA Analysis was adjusted to reflect an institutional manager selection process, and institutional fee levels, it would be **highly likely that the average super fund investor would be found to consistently outperform the benchmark**.

Actual results delivered by Australian Super Funds support this conclusion, with the SuperRatings SR50 Australian Shares Index of after-fee (i.e. actual) returns to super fund members outperforming the S&P/ASX 200 index (before fees) in every period (1, 3, 5, 10 and 15 years).

S&P Dow Jones Indices claim that they are 'the de facto scorekeeper of the ongoing active versus passive debate'. It should be born in mind that the SPIVA Scorecard is only relevant to retail investors.

The scale, manager selection processes and fees applicable to the SPIVA Scorecard bear no resemblance to those of institutional investors such as Australian Superannuation Funds. The actual results produced by Superannuation Funds for their members bear this out.

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